BEFORE THE
SOUTH CAROLINA PUBLIC SERVICE COMMISSION

DOCKET NO. 97-239-C

Re: Proceeding to Establish Guidelines for an Intrastate Universal Service Fund	)))	**PETITION**

The South Carolina Telephone Association ("SCTA") respectfully submits this Petition requesting that the South Carolina Public Service Commission (the "Commission") proceed with a hearing to address outstanding issues and to implement the State Universal Service Fund ("USF").[1] As the South Carolina General Assembly recognized almost four years ago, the State USF is a critical component in continuing South Carolina's commitment to universally available basic local exchange telephone service at affordable rates.

The Commission and the parties to this docket have expended considerable time and resources to fully present and analyze the issues. The General Assembly directed the Commission to have State USF guidelines in place not later than August 27, 1997. Clearly it was the intent of the General Assembly for the Commission to implement a State USF within a reasonable timeframe after adoption of State USF guidelines. By the time a State USF can be implemented, it will be more than four years since the Legislature directed implementation of the fund, and more than three years after the General Assembly's deadline for the adoption of guidelines for the fund. It is time to give effect to the General Assembly's intent in enacting S.C. Code Ann. § 58-9-280(E) by finally resolving outstanding issues and implementing the State USF.

[1] All SCTA companies with the exception of ALLTEL and United Telephone Company are sponsoring this petition. For a list of participating companies, see Attachment A.

The SCTA participated as a party in the above-captioned docket. The Commission issued Orders 97-753 (dated September 3, 1997), 97-942 (dated December 31, 1997), 98-201 (dated March 17, 1998), and 98-322 (dated May 6, 1998), in this matter. In these orders, the Commission adopted and modified certain guidelines for the State USF, approved cost models and methodologies, and held certain other issues in abeyance.

In Order No. 98-322, the Commission adopted version 3.1 of the Benchmark Cost Proxy Model, with company-specific inputs (as modified by the Commission), for non-rural companies in South Carolina and for Sprint/United (as a rural company). The Commission approved and adopted the embedded cost studies submitted by other rural local exchange companies. The Commission stated, "All other matters related to the intrastate universal service fund and not ruled upon herein are held in abeyance." Order No. 98-322 at p. 72.

In September 1998, the SCTA filed a petition asking the Commission to rule on outstanding issues. By Order No. 1999-221 dated March 26, 1999, the Commission granted a Joint Motion to Postpone the State USF Proceeding (which had been scheduled for hearing on April 26, 1999). The Joint Movants had requested that the Commission postpone the hearing *until the 4th Quarter of 1999*, to allow time for the Federal Communications Commission ("FCC") to issue its decision on the federal high cost support for non-rural carriers.

The SCTA respectfully submits that the FCC has issued its expected orders on Universal Service,[2] and that the 4th Quarter of 1999 has come and gone. The FCC's Ninth Report and Order (Methodology Order) set forth the methodology to be used in determining the amount of federal

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[2] *See* Twelfth Order on Reconsideration In the Matter of Federal-State Joint Board on Universal Service, FCC Order 99-121 in CC Docket No. 96-45 (released May 28, 1999) ("May 27, 1999 Universal Service Order"); Ninth Report and Order on Universal Service ("Methodology Order") and Tenth Report and Order on Universal Service ("Inputs Order"), dated November 2, 1999.

universal service high cost support to be directed to each state for non-rural carriers. The FCC's goal in establishing this aspect of its federal universal service mechanism was to "enable reasonable comparability among the states." The state's role is to ensure reasonable comparability of rates *within* the state. The FCC's model does not calculate the amount of universal service support in the state. Instead, the FCC model provides support to non-rural carriers "based solely on the extent to which the costs of providing supported services in high-cost areas exceed the national benchmark." See Methodology Order at para. 8. A state's average cost must first exceed 135% of the national benchmark of $23.35 (135% x $23.35 = $31.52). Although South Carolina's state average cost per the FCC model ($28.23) exceeds the national average of $23.35, it does not exceed the FCC threshold. Therefore, South Carolina non-rural carriers will not receive federal support under this new mechanism. However, the FCC did adopt a "hold harmless" provision that prevents a carrier from receiving less support than would be received under the existing high cost mechanism for an interim period. See Methodology Order at para. 78.

There is no reason for further delay in completing this proceeding and implementing the State USF. In fact, both the General Assembly and this Commission have expressed the policy that all telecommunications carriers should contribute to universal service in South Carolina. See S.C. Code Ann. § 58-9-280(E)(2) ("The commission shall require all telecommunications companies providing telecommunications services within South Carolina to contribute to the USF as determined by the commission"); State USF Guidelines adopted by the Commission at Section 5 ("Contributors to the state USF will be identified in accordance with Section 254 of the federal Telecommunications Act of 1996 and Section 58-9-280(E) of the South Carolina Code"). There are currently approximately 100 competitive local exchange carriers ("CLECs") authorized to provide service in the State of South Carolina. These CLECs are able to obtain interconnection and services from incumbent local exchange carriers ("ILECs") at cost-based rates, as determined by the Commission. Yet not one of these carriers is required to contribute to universal service in South Carolina. These carriers are enjoying the ability to compete by purchasing services at cost-based rates, while not having any duty or obligation to serve any particular customer or class of customers. The eventual result will be an erosion of universal service support from those services and classes of customers that can yield the highest profit for CLECs, and thus an even bigger universal service burden on the customers least able to afford basic local service. It is time for all telecommunications carriers to begin contributing to universal service in South Carolina, consistent with the express intent of the Legislature and this Commission.

The issues listed below as "Outstanding Issues" have been raised during the proceedings held in this docket, but have not been ruled upon by the Commission. The SCTA respectfully requests that the Commission review the testimony of record with respect to outstanding issues and complete its deliberations in this important matter. The SCTA also respectfully requests that the Commission proceed with actual implementation of the State USF as quickly as feasible, as the Legislature intended. In this Petition, the SCTA proposes an approach that will allow the State USF to be implemented in phases, in order to reduce the administrative burden on the Commission and allow for a transition to full universal service funding.

OUTSTANDING ISSUES

Timeframe for Implementing the State USF

The Commission has approved cost models and methodologies for calculating the amount of high-cost universal service support required by each carrier of last resort in South Carolina, but has not set an implementation date for the State USF. This is a matter of utmost importance to

South Carolina citizens. State law requires that the Commission "shall issue its final order adopting [State USF] guidelines as may be necessary for the funding and management of the USF [on or before August 27, 1997]." While the Commission adopted guidelines before that date, the clear intent of the law is that the State USF would actually be implemented within a reasonable time thereafter. The SCTA believes that three years is long enough, and that the State USF should be implemented and operational as soon as feasible, and in no event later than April 1, 2001.

In addition, as noted above, the Commission previously delayed this proceeding in response to a Joint Motion that requested a delay only until the 4^{th} Quarter of 1999. That timeframe has come and gone. The FCC has issued its orders on Federal USF methodology and inputs, and it is time to implement the State USF.

Recovery of Contributions to the USF

The Commission has ruled that carriers are to recover their contributions to the USF based on all retail, end-user telecommunications revenues. Order No. 97-753 at pp. 15-16. However, the Commission deferred issues relating to the mechanism for such recovery, specifically the end-user surcharge that had been proposed by the SCTA. Id.

In enacting the Telecommunications Act of 1996, Congress recognized that opening local telecommunications markets to competition could adversely impact the availability of quality local telephone service at affordable rates. The Act codified a universal service policy and provided for "specific, predictable and sufficient" federal and state mechanisms to ensure that "[c]onsumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, [would] have access to telecommunications and information services . . . that are reasonably comparable to rates charged for similar services in urban areas." Section 254(b)(5), (b)(3). Congress further required that any universal service funding mechanism be explicit, as one of the purposes of such a funding mechanism is to remove implicit support from rates. See Section 254(e). The South Carolina General Assembly has also codified a state universal service policy and requirements for universal service funding. See S.C. Code Ann. § 58-9-280(E).

In order to generate the requisite contributions to the State USF, the Commission should adopt an end-user surcharge, as outlined in the SCTA Guidelines. A retail surcharge assessed by all carriers is the simplest, most efficient, and most competitively neutral mechanism available to the Commission. It would ensure that all carriers contribute to the fund on the same basis, thereby providing a level playing field as local telecommunications markets become more competitive. A uniform percentage surcharge by all carriers on their end user retail revenues will raise universal service funds more efficiently than the current implicit approach. This end user surcharge will spread the burden equitably across all telecommunications services and all carriers, and does not distort some end user rates relative to others.

In assessing the impact of an end-user surcharge, the revenue neutrality of the State USF should be kept in mind. The SCTA Guidelines require that carriers of last resort must reduce prices to offset the amount received from the State USF. Many customers will see rate reductions that will offset the amount of the end-user surcharge. For example, if a carrier of last resort draws from the fund and simultaneously reduces its access charges, customers will see a reduction in toll rates if the interexchange carriers pass access charge reductions through to their customers.

Lifeline

The Commission has ordered that the State USF will fund Lifeline to the amount necessary to take advantage of the maximum amount of federal matching funds available for these services to low-income consumers. Commission Order No. 97-753 at 16. At present, the incumbent local exchange carriers in South Carolina have approximately 19,976 Lifeline customers. At the maximum state funding amount of $3.50 per line per month (which carries with it $7 per line in federal funding for a total of $10.50 per line in combined state and federal support), the Lifeline component of the State USF totals approximately $838,992 annually.[3] The Commission should direct that the State USF include the amounts necessary to fund Lifeline services, in addition to the high-cost funding, as detailed below.

Rate Reductions

The Guidelines, as proposed by the SCTA and approved by the Commission, provide that the State USF will be revenue-neutral to incumbent LECs. Specifically, Section 4 of the Guidelines provides:

> Effective with implementation of the USF, incumbent LECs should reduce prices for intrastate services that include implicit support for universal service to offset the gross amount received from the USF. Such price reductions shall be designed to be revenue neutral to the carrier upon implementation of the USF. In the event the Commission were to disallow the explicit recovery of incumbent LECs' contributions to the USF through an explicit end user surcharge, such prices shall only be reduced by the net amount of universal service support that is received.

As the SCTA proposed in its September 1998 Petition, and consistent with the State USF Guidelines this Commission has already adopted, the Commission should require carriers of last resort to file their rate reductions prior to the Commission's actual collection of amounts for the State USF. Rate reductions would be effective upon implementation of the State USF.

Sections 9 and 11 of the State USF Guidelines

The Commission adopted State USF Guidelines in August 1997, by its Order No. 97-753, but deferred Sections 9 and 11 dealing with "Size of the Fund" and "Rates," respectively. The SCTA proposes that the Commission adopt these sections, as modified by the SCTA and shown on

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[3] This amount may be trued up at the time the State USF is actually funded, based on the actual number of Lifeline customers at that time. The number of Lifeline customers will be updated

Attachment B to this Petition. The proposed sections are consistent with actions already taken by the Commission in this docket, and with the phased approach to State USF proposed by the SCTA herein.

IMPLEMENTATION

With respect to implementation of the State USF, the SCTA requests that the Commission consider a phased-in approach, as described below.

The SCTA believes that the elimination of support currently implicit in rates should take place as soon as feasible, through full funding and operation of the State USF. This would level the playing field for CLECs and ILECs by removing the distortions in rates and economic incentives that have been and are being experienced as a result of the historic approach to ratemaking for telecommunications services. Other eligible telecommunications carriers will also benefit from the portability of State USF support payments. However, if the Commission decides not to fully implement a State USF immediately, the SCTA proposes that the Commission implement the State USF through a series of phases.[4] In each phase, a certain amount of implicit support would be identified and eliminated, and the State USF would be funded accordingly.

The SCTA proposes in the first year to implement no more than 33% of the total State USF. The first year's implementation will be accomplished in two steps, with the first step being a reduction in intrastate access rates and the second step a reduction in end user rates providing implicit support to universal service.

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periodically, as determined by the Commission.

[4] In proposing this compromise position, neither the SCTA nor its individual members waives any rights with respect to its general position that the State USF should be fully funded and operational as soon as feasible.

An overall objective would be for the non-rural ILECs to reduce intrastate access rates by 50% to a composite rate (combined originating and terminating rate) of three cents, with comparable targeted access reductions made by rural ILECs. Interexchange carriers have recently raised concerns relating to the level of access rates in South Carolina. Clearly, switched access charges contain implicit support for basic local exchange telecommunications service. Thus, reduction of access rates will certainly reduce some of the implicit support that contributes to the cost of providing basic local service, which is one of the goals of universal service funding. Reducing access rates will also allow ILECs to provide access services on a level playing field with competitive access providers, who do not have an obligation to provide basic local service. Finally, long distance customers will benefit from lower rates to the extent that interexchange carriers pass along cost savings to their customers.

End user rates, such as toll and business, also provide implicit support. As competition grows in South Carolina, it is imperative to remove this implicit support so that all carriers are able to compete on a level playing field. As part of the SCTA's proposal, the initial funding of each ILEC's universal service support amount will be equal to the access reduction discussed above and rate reductions to end user rates to be proposed by each ILEC, totaling up to 33% of their individual approved State USF requirement.

The SCTA respectfully requests that the Commission implement the access reductions proposed herein as soon as feasible, and in no event later than April 1, 2001. The SCTA estimates that the access reductions in the initial phase of the State USF will amount to approximately $36 million for the companies sponsoring this petition. A detailed breakout of these amounts, by company, is shown in Attachment A.[5] With the implementation of the initial phase of the State USF, those and any further access reductions made by ILECs as a result of access rate reductions implemented pursuant to a State USF proceeding by the largest LEC operating in the state shall be recovered solely through the State USF.

Upon implementation of the access reductions but no later than April 1, 2001, the ILECs may file tariffs to reduce end user rates providing implicit support to universal service. These tariffs would have an effective date of October 1, 2001. The amount of these reductions for all ILECs when combined with the amount of the access reductions taken in the first step will equal no more than 33% of the total State USF. If a rural ILEC's access reductions exceed the first year's maximum ceiling of 33% for that rural ILEC, the rural ILEC will still be permitted to make its targeted access reductions. To maintain the overall ceiling, BellSouth agrees to limit its end user tariff reductions by the amount necessary to insure that no more than 33% of the total state fund is implemented in the first year.

The SCTA has proposed that contributions to the State USF should be recovered through an explicit end user surcharge. This surcharge would be calculated by dividing the amount of State USF being funded by total retail end user telecommunications revenues for South Carolina. The resulting percentage would be applied to each end user's telecommunications bill. Using the FCC's data on total retail end user telecommunications revenues for South Carolina of $2,749,000,000,[6]

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[5] The amounts required by company are based on the most recent data available for each company. The actual amounts are subject to true-up based on the actual tariffed switched access rates approved by the Commission for each company. In addition, the actual amounts may be adjusted based on the most recent access minutes-of-use data available for each company at the time the initial phase of the State USF is sized.

[6] *State-By-State Telephone Revenue and Universal Service Data*, James Eisner, Industry Analysis Division, Common Carrier Bureau, Federal Communications Commission, January 2000, pp. 46 and 48. This is the FCC's figure for year end 1998, the most recent year for which data is

the surcharge needed to fund the access reduction component of the initial phase for the first six months would be less than 2%. The surcharge for implementation of the initial phase of the State USF (i.e., both the access reduction component and the reduction in end user rates component) would be less than 5%.[7]

To fully implement the State USF, the SCTA proposes to continue the procedure whereby individual ILEC carriers of last resort may reduce implicit support in rates by filing appropriate tariff amendments. Such tariffs should be filed not later than April 1 of any given year, beginning in 2002, to be effective October 1 of that year. The Commission would render a decision on each company's tariff filings no later than September 1 of the effective year. This will give the Commission, as Administrator of the State USF, time to adequately size and fund the State USF for each year.

In addition, to ensure that the State USF is implemented under a phased approach, the SCTA would propose that, with the tariff filing in April 2002, a company would be permitted to implement rate reductions that would recover no more than 2/3 of the total State USF allowed for that company, as previously determined by the Commission in this docket. In the next year, a company would be permitted to implement up to the full amount of their State USF support.

The SCTA proposes amendments to the Commission's previously-adopted State USF Guidelines to make them consistent with this proposal. See Attachment B.

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available. The actual amount used will be the total of all retail end-user revenues for carriers identified by the Commission as contributors to the fund, for the most recent period available.

[7] These surcharge percentage estimates take into account the high cost component of the State USF as well as funding for the Lifeline program. They do not take into account any administrative expenses that may be included in the State USF.

WHEREFORE, the South Carolina Telephone Association respectfully requests that the Commission consider the outstanding issues raised by the SCTA in this docket, as outlined and discussed herein, and issue a final order in this docket disposing of these outstanding issues; approve the SCTA's proposed schedule for implementation of the full State USF; and implement the access reduction component of the initial phase of the State USF as soon as practicable, but not later than April 1, 2001, and the end user rate reduction component not later than October 1, 2001.

Respectfully submitted,

By:________________________

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Columbia, South Carolina
February 10, 2000

ATTACHMENT A

State USF By Company
Access Reduction Step of Initial Phase

Company	State USF
BellSouth	$22,800,000
Bluffton Telephone Company, Inc.	332,287
Chesnee Telephone Company	137,657
Chester Telephone Company	600,731
Farmers Telephone Cooperative, Inc.	1,210,491
Ft. Mill Telephone Company	231,257
GTE South	4,400,000
Hargray Telephone Company, Inc.	949,384
Heath Springs Telephone Company Inc.	34,201
Home Telephone Company, Inc.	679,227
Horry Telephone Cooperative, Inc.	723,341
Lancaster Telephone Company	354,699
Lockhart Telephone Company	15,275
McClellanville Telephone Company	79,435
Norway Telephone Company	26,146
Palmetto Rural Telephone Cooperative, Inc.	427,140
Piedmont Rural Telephone Cooperative, Inc.	296,243
Pond Branch Telephone Company	559,036
Ridgeway Telephone Company	91,394
Rock Hill Telephone Company	896,020
Sandhill Telephone Cooperative, Inc.	333,816
St. Stephen Telephone Company	224,794
West Carolina Rural Telephone Cooperative, Inc.	471,232
Williston Telephone Company	164,657
TOTAL	36,038,463

ATTACHMENT B

**GUIDELINES FOR SOUTH CAROLINA
UNIVERSAL SERVICE FUND (USF)**

1. Definition of Universal Service

[NOTE: This section was adopted by the Commission in Order No. 97-753. Modifications made by the Commission have been incorporated.]

- The term “universal service” means the provision of basic local exchange telecommunications service, at affordable rates and upon reasonable request, to all single-party residential and single-line business customers within a designated service area.

- The term “basic local exchange telecommunications service” means for single-party residential and single-line business customers access to basic voice grade local service with dual-tone multi-frequency (DTMF) signaling (i.e., Touch-tone), access to available emergency services and directory assistance, the capability to access interconnecting carriers, access to dual party relay services, access to operator services, one annual local directory listing, and toll limitation at the request of the low income consumer or in order to prevent further losses by the carrier of last resort, for low-income consumers participating in Lifeline (subject to technical feasibility).

- As initial carriers of last resort, ILECs shall establish designated service areas that shall not be inconsistent with federal guidelines (i.e., study area for rural companies and wire center or smaller areas for non-rural companies). A new entrant may not receive USF support for serving an area that is smaller than the ILEC’s designated service area.

- After Notice and an opportunity for a hearing to all affected carriers, the Commission by rule may expand the set of basic local exchange telecommunications services within the definition of universal services based on a finding that the uniform statewide demand for such additional service is such that including the service within the definition of universal services will further the public interest; provided, however, that before implementing any such finding, the Commission shall provide for recovery of unrecovered costs through the USF of such additional service by the affected carrier(s) of last resort.

2. Carrier of Last Resort

[NOTE: This section was adopted by the Commission in Order No. 97-753, and modified on reconsideration in Order No. 97-942. Modifications made by the Commission have been incorporated.]

- Telecommunications carriers that assume the obligations of carrier(s) of last resort (COLRs) will be eligible to receive intrastate universal service support. Carrier(s) of last resort will be designated by the Commission. Carrier(s) of Last Resort are "eligible telecommunications carriers" as defined in Section 214(e) of the federal Telecommunications Act of 1996, but not all eligible telecommunications carriers are carriers of last resort.

- To be designated a COLR by the Commission, a carrier must meet the following requirements:

  - The COLR must be willing and able and must certify its commitment to provide the defined services supported by the State USF to any requesting customer's location within the designated service area as defined in paragraph 1;

  - The COLR must advertise the availability of such services and the charges therefor using media of general distribution;

  - The COLR must provide its services at not more than the Commission-authorized maximum stand-alone rates for the defined basic local exchange telecommunications service, and must meet all service quality and provision rules established by the Commission for universal services;

  - The COLR may satisfy its obligation to provide the defined services over its own facilities or a combination of its own facilities and resale of another carrier's services. The COLR may also satisfy its obligation to provide the defined services in whole or in part through the lease of unbundled network elements (UNEs). A carrier that provides service solely through the resale of other carriers' facilities is not entitled to universal service support.

3. Administration of the USF

[NOTE: This section was adopted by the Commission in Order No. 97-753. Modifications made by the Commission have been incorporated.]

- The South Carolina Public Service Commission (the Commission) shall act as Administrator for the South Carolina Universal Service Fund (USF), as set forth in Section 58-9-280(E)(1) of the South Carolina Code.

- The Administrator shall be charged with periodically determining the level of contributions required and assessing the various contributors to meet the distribution needs of the USF.

- A single USF shall supply the funding requirements for all South Carolina universal service programs. The South Carolina Interim LEC Fund, established by the Commission pursuant to Section 58-9-280(M) of the South Carolina Code, will transition into the USF when funding for the USF is finalized and adequate to support the obligations of the Interim LEC Fund.

- The data necessary to administer the USF shall be handled in a proprietary manner. Total industry aggregated data may be released, as determined by the Commission, so long as no individual company's data is discernable.

- The Administrator is responsible for assessing telecommunications carriers, distributing funds to the various qualified recipients, preparing and filing with the Commission and providing participants with the results of an annual audit of the fund performed by an independent third party, and making recommendations to the Commission pertaining to the ongoing operation and modification of the fund.

- The Administrator shall perform annual audits of the USF participants, if needed. The Administrator's audit authority shall be limited to the review of data necessary to ensure that all contributions are accurately assessed and distribution claims are valid.

- The administration of all aspects of the fund shall be done in a competitively neutral manner, as provided for in the FCC's First Report and Order in CC Docket No. 96-45, at paragraph 46.

4. Revenue Neutrality

[NOTE: This section was adopted by the Commission in Order No. 97-753 without modification.]

- Effective with implementation of the USF, incumbent LECs should reduce prices for intrastate services that include implicit support for universal service to offset the gross amount received from the USF. Such price reductions shall be designed to be revenue neutral to the carrier upon implementation of the USF. In the event the Commission were to disallow the explicit recovery of incumbent LECs' contributions to the USF through an explicit end user surcharge, such prices shall only be reduced by the net amount of universal service support that is received.

5. Contributions to the USF

[NOTE: This section was adopted by the Commission in Order No. 97-753 without modification.]

- Contributors to the state USF will be identified in accordance with Section 254 of the federal Telecommunications Act of 1996 and Section 58-9-280(E) of the South Carolina Code.

- All telecommunications carriers and other providers offering telecommunications services within the State of South Carolina must contribute to the USF. Companies are deemed to be offering telecommunications services in South Carolina if such telecommunications is being offered "for a fee"; and such telecommunications is being offered to an end user, or to such classes of users as to be effectively available to an end user.

- For purposes of the South Carolina Universal Service Fund, the federal definition of "telecommunications" is adopted and is defined as a "transmission, between or among points specified by the user, of information of the user's choosing, without change in the form or content of the information as sent and received." Examples of telecommunications include, but are not limited to: wireless services where they compete with a local telecommunications service provided in this State; operator services; access services; wide area telephone services (WATS); toll-free services; 900 services; message telephone services (MTS); private line services; telex services; telegraph services; video and satellite services to the extent that they meet the definition of telecommunications (excludes content and one-way cable television service); pay telephone services; and wholesale services such as toll switched access, dedicated access, unbundled network elements, resale, etc.

- The phrase "for a fee" means services rendered in exchange for something of value or a monetary payment. "For a fee" includes the services offered to the general public by either a common carrier or a non-common carrier, (e.g., a private network provider). "For a fee" does not mean "for-profit."

- All telecommunications carriers offering services within the state shall contribute to the USF on the basis of their relative shares of all retail "end user" telecommunications revenues generated by and/or billed to an end user in the State of South Carolina.

- If a contributor's annual contribution would be less than $100, it will not be required to contribute for that year.

6. Distributions from the USF

[NOTE: This section was adopted by the Commission in Order No. 97-753, and modified on reconsideration in Order Nos. 97-942 and 98-201. Modifications made by the Commission have been incorporated.]

- Distributions of monies in the USF shall be made monthly to each eligible COLR.

- A COLR shall only receive USF support for the provision of the defined service that utilizes its own facilities or leased unbundled network elements. Any USF distributions associated with resale of another carrier's services would be provided to the underlying COLR.

- The COLR may satisfy its obligations to provide the defined services in whole or in part through the lease of unbundled network elements (UNEs). However, the level of USF support such a carrier may receive shall not exceed the difference between the sum of the prices paid for the UNEs utilized in providing the defined basic local exchange telecommunications service and the established maximum price allowed to be charged to the end user customer. Support provided to the UNE purchaser shall not exceed the level of support provided to a facilities-based provider. The ILEC providing non-discriminatory access to UNEs to competing COLRs shall receive the difference between the level of universal support provided to the competing COLR and the per-line support previously provided to the ILEC.

- A COLR that provides USF services using its solely-owned and constructed network will be entitled to receive the full amount of per-line USF support.

- The COLRs which provide the underlying facilities to resale competitors will be entitled to receive the full amount of per-line USF support for those facilities.

- Carriers providing services on the basis of resale (in which facility requirements are not met) are not eligible to receive USF support.

- Fund payments shall be distributed to providers of supported services based upon Commission-approved guidelines. All providers must submit reports to the Administrator in order to receive payments. The Administrator shall establish procedures to verify payment claims and may suspend or delay payments to a provider if such provider fails to provide adequate verification upon reasonable request or if directed by the Commission to do so.

- The receipt of funding from the State USF is predicated upon the cost of providing basic local exchange telecommunications service to a consumer and is not earnings based.

- The universal service funding is portable to any qualified carrier of last resort.

- The funding is associated with each individual single-party residential or single-line business line regardless of its classification as a primary or non-primary line.

7. Adjustments to Contribution and Distribution Levels

[NOTE: This section was adopted by the Commission in Order No. 97-753 without modification.]

- The Commission/Administrator shall have the authority to make adjustments to the contribution or distribution levels based on yearly reconciliation, or more often if deemed necessary for efficient management of the USF, and to order further contributions or distributions as needed.

- Any excess funds not distributed during a Plan year shall only be used to reduce the following Plan year's funding contribution requirement. Any funding shortfall existing at the end of a Plan year shall be added to the contribution requirement in the following Plan year.

8. Recovery of USF Contributions

[NOTE: Although the Commission's Order did not expressly defer Section 8 of the Guidelines, the Commission did defer the question of retail surcharges. The SCTA proposes that the Commission adopt the following guidelines, as originally proposed.]

- Contributions to the USF may be recovered through an explicit surcharge on retail customers' bills.

`• The USF Administrator shall develop an explicit uniform retail surcharge percentage to be used as a USF contribution recovery mechanism. The USF surcharge may be applied to the retail revenue billed to all end users of telecommunications. The surcharge shall be updated at least annually and shall be applied in a manner consistent with the contributions collected by the Administrator, including periodic updates.

9. Size of the fund

[NOTE: The Commission deferred consideration of the items listed in Section 9. The SCTA proposed adoption of an amended version of Section 9 by the testimony of Alphonso Varner, filed on October 27, 1997. In order to be consistent with past proceedings as well as the SCTA's proposed phased approach to State USF, the SCTA proposes that the following Section 9 be adopted.]

- The maximum size of the state USF (which includes provisions for high cost and low income support) shall be the sum of the differences, for each ILEC carrier of last resort, for each of its designated state USF support service areas, between the cost of providing basic local exchange telecommunications services less the maximum amount (as approved by the Commission) it may charge for basic local exchange telecommunications service within each area and less any federal universal service support received for serving the same area ("high cost support component"), plus the cost of any state mandated support programs for low-income consumers such as Lifeline, as well as any appropriate administrative expenses. The high cost support component is calculated on a per-line basis for residential and single-line business service, then summed over all such lines in the designated state USF support area.

- The state USF should be implemented in three phases. The initial phase of the state USF will implement up to 33% of the total state USF and will consist of two steps. The first step will consist of a reduction in intrastate access rates (access step) and the second step will consist of reductions in end user rates providing implicit support for universal service (end user step). The Commission should render its decision on the establishment of a state USF program in sufficient time to implement the access step of such program as soon as feasible, but in no event later than April 1, 2001.

- The access step of the Initial Phase of the state USF will include: 1) the sum of the dollars required for each ILEC to reduce its intrastate access rates from their level as of April 1, 2000 to the target level proposed by each ILEC, plus 2) the cost of any state-mandated support programs for low-income consumers such as Lifeline, and 3) appropriate administrative expenses.

- Upon implementation of the access step, but no later than April 1, 2001, the ILECs may file tariffs to reduce end user rates providing implicit support. Such filings will be considered by the Commission and a decision rendered by September 1, 2001 for inclusion in the state USF effective October 1, 2001. The amount of these reductions for all ILECs when combined with the amount of the access reductions taken in the access step will equal no more than 33% of the total state USF. If a rural ILEC's access reductions exceed the first year's maximum ceiling of 33% for that rural ILEC, the rural ILEC will still be permitted to make its targeted access reductions. To maintain the overall ceiling, BellSouth agrees to limit its end user tariff reductions by the amount necessary to insure that no more than 33% of the total state USF is implemented in the first year.

- After the initial phase, on April 1 of each year, beginning in 2002, each ILEC receiving USF support may file tariff reductions and request additional USF support to fund the continued removal of implicit support contained in rates. Such filings will be considered by the Commission and a decision rendered by September 1 of the same year for inclusion in the state USF as sized each October 1. The total high cost support for each ILEC for the 2nd phase shall not exceed 66.67% of its maximum high cost support. The 3rd phase shall fully implement the state USF. No ILEC shall be required to implement any portion of the state USF other than the access rate reductions that ILEC committed to in the first phase.

- The incremental high cost support amount per Residential and Business line for each phase shall be calculated by dividing the revenue reductions resulting from tariff reductions by the total universal service access lines, considering the relationship between the maximum high cost support between Business and Residence per line amount approved by the Commission. The total high cost support amount per Residence and Business line for each phase shall be the sum of 1) previous phase high cost support amount per line plus the incremental state high cost support amount per line, by Business and Residence, respectively plus 2) the incremental high cost support amount per Residence and Business line for the current phase. The total size of the fund in each phase shall be the support amount times the number of USF lines, plus the cost of any state-mandated support programs for low-income consumers such as Lifeline, plus appropriate administrative expenses.

- To account for changes in COLRs' universal service access lines, the fund shall be adjusted on April 1 of each year based on COLRs' universal service access lines in service as of December 31, and adjusted on October 1 of each year based on COLRs' universal service access lines in service as of June 30 of the same year.

- The Commission-approved costs of providing universal service on a per line basis should remain in place until such time as economic or marketplace changes warrant review.

- The Administrator may use estimates to establish the size of the USF on an annual basis, provided it establishes a mechanism for adjusting any inaccuracies in the estimates. Such a mechanism should allow for periodic adjustments, which will enable the Administrator to efficiently manage both the collection and distribution of the USF.

- Non-telecommunications services shall not be supported by the USF, nor will revenues received from non-telecommunications services be used to support USF.

- With the implementation of the initial phase of the State USF, those and any further access reductions made by ILECs as a result of access rate reductions implemented pursuant to a State USF proceeding by the largest LEC operating in the state shall be recovered solely through the State USF.

- The Interim LEC Fund will transition into the USF when funding for the USF is finalized and adequate to support the obligations of the Interim LEC Fund, in addition to its other obligations.

10. Designation of Eligible Telecommunications Carriers

[NOTE: This section was adopted by the Commission in Order No. 97-753 without modification.]

- Pursuant to Section 214(e) of the federal Telecommunications Act of 1996 and to the FCC's Universal Service Report and Order released on May 8, 1997, state commissions must, either upon their own motion or request, designate a common carrier that meets the requirements of Section 214(e)(1) "as an eligible telecommunications carrier for a service area designated by the State commission." Upon notice to the State, the Commission shall permit eligible carriers to relinquish their designation as an eligible carrier in areas that are served by more than one eligible carrier.

- Incumbent local exchange carriers shall notify the Commission by letter, on or before October 1, 1997, of their desire to be appointed as eligible telecommunications carriers in designated service areas. The Commission shall consider the companies' requests and may render a single decision. Companies must, however, be designated as eligible before December 31, 1997, in order to receive federal universal service funds for 1998.

11. Rates

[NOTE: The Commission deferred consideration of the items listed in Section 11. The SCTA proposed adoption of an amended version of Section 11 by the testimony of Alphonso Varner, filed on October 27, 1997. The SCTA proposes that the Commission adopt the following:]

- The Commission should investigate and determine the appropriate single-party residential and single-line business rates for the State of South Carolina for each ILEC operating in South Carolina. The Commission shall allow an ILEC to charge any rate or rates determined to be appropriate or affordable for purposes of calculating state USF support for that ILEC. Such rates would represent the maximum rate that a carrier of last resort is authorized to charge an end user customer for the supported basic local exchange telecommunications service (except that discounts may be available to end users under the residential Lifeline program).

- Until such time as the Commission conducts hearings to establish appropriate maximum rates, the maximum rates for determining universal service support shall be deemed to be the COLR's tariffed rates for residential and single-line business services.

- If funding for the state USF is subsequently reduced, COLRs should be able to increase rates an amount equal to the reduction in funding.

- The Commission shall not require services not supported by universal service funding to be priced below their cost.

12. Low-income Consumers

[NOTE: This section was adopted by the Commission in Order No. 97-753 without modification.]

- Support for a statewide Lifeline program shall be part of the USF.

- The Lifeline and Link-up programs for low-income consumers shall not be inconsistent with federal guidelines.

- A consumer's qualification for support should be determined by the Commission. The Commission shall establish narrowly-targeted qualification criteria that are based solely on income or factors directly related to income.

- Consumers meeting qualifying criteria should be free to select any eligible provider of their choice.

- The Commission shall take the necessary steps to maximize the benefit of the FCC's federal Lifeline program for qualified telecommunications customers in the State of South Carolina.

13. Discounts for Schools, Libraries, and Public and Non-Profit Health Care Providers

[NOTE: This section was adopted by the Commission in Order No. 97-753 without modification.]

- The Commission finds that the same discounts for schools and libraries are adopted for intrastate as those specified for interstate rates and charges in the FCC's Universal Service Report and Order released on May 8, 1997. The Commission authorizes incumbent LECs the same intrastate pricing flexibility to bid for services to schools and libraries as the FCC has provided for interstate services in para. 483 of its Universal Service Report and Order released on May 8, 1997.

- The Commission establishes the necessary intrastate regulatory framework to enable South Carolina's public and non-profit health care providers located in rural areas, and telecommunications carriers serving such health care providers, to take full advantage of all aspects of the federal universal service program for health care services. The federal program for rural health care providers is outlined in the FCC's Universal Service Report and Order released on May 8, 1997.